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ISRAEL:**Political Stalemate Continues**

President Herzog will begin consultations with party leaders today to determine whether he should give Labor or Likud the first shot at forming a coalition government.

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Comment: Despite press reports that an ultraorthodox religious party, SHAS, had decided to join a Likud-led coalition, SHAS officials met on Sunday with Labor leader Peres. Peres said after the meeting that he still believed the religious party might join a Labor government. If he is wrong, it will be highly difficult for Labor to put together a 61-member coalition government.

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Former Defense Minister Weizman, whose Yahad Party controls three Knesset seats, continues to favor either a Labor-led coalition or a government of national unity. Likud cannot form a government without his support.

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Weizman's opposition to Likud stems largely from his disapproval of its settlement policy in the occupied territories. He, nonetheless, might be willing to join Likud if Labor fails to form a coalition or if Likud makes a sufficiently attractive offer.

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Weizman is a former member of Likud, and he realizes that serving in a Likud government would give him the opportunity to rejoin the party and perhaps eventually compete for the Likud leadership.

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A decision by Weizman to support Likud, however, would open up new problems for Prime Minister Shamir's coalition. The ultranationalist party, Tehiya, has stated that it would not serve with Weizman in a Likud government. If Tehiya withdraws its five seats, Likud would be unable to form a coalition.

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NICARAGUA:**Insurgent Accord**

Eden Pastora's denunciation of the unity agreement between two major insurgent organizations diminishes its political impact, but the accord increases the prospects for coordinated military actions. [redacted]

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The pact commits the Nicaraguan Democratic Force and the Democratic Revolutionary Alliance to oust the Sandinista regime but rejects a return to the politics of former President Somoza. [redacted]

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[redacted] both organizations oppose Pastora's participation unless he rejoins the Alliance, which recently ousted him for rejecting the unity effort. [redacted]

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Pastora charges that Alliance leaders are withholding aircraft and other equipment belonging to his forces, and he claims that most guerrillas in the south are loyal to him. [redacted]

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Comment: The unity agreement should help the Force's efforts to dispel charges that it is dominated by supporters of Somoza. The document's explicit rejection of Somoza's rule parallels a slogan that Pastora has used to describe his own movement. Nevertheless, Pastora is the best known Nicaraguan insurgent leader, and his continuing charges will cloud the Democratic Force's attempts to improve its image. [redacted]

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Because of their division, the insurgent groups have fought in differing areas of the country and have not benefited from tactical coordination. The new agreement paves the way for local coordination in areas such as the Atlantic coast, where recent contacts between Force and Alliance elements reportedly have occurred. [redacted]

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**USSR-EASTERN
EUROPE:****Policies Encourage Hardliners**

Moscow's confrontational attitude toward the West reportedly has strengthened the confidence of conservatives in Eastern Europe who oppose domestic reforms and improving ties with the West, but they are unlikely to gain the upper hand except in Czechoslovakia.

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Hungarian moderates are concerned that worsened East-West relations, which they attribute especially to the US-Soviet impasse over INF, have emboldened conservative opponents of the regime's policies. any further deterioration in relations would encourage hardliners to try even more to increase their influence.

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Moscow's confrontational attitude has strengthened hardliners in the Polish party and government. the Soviets were creating a crisis atmosphere in order to demand greater Warsaw Pact cooperation and cohesion against "Western strategic and economic hostility."

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In Czechoslovakia, the attacks directed by ultraorthodox Party Secretary Bilak against domestic reforms of other East European states and their cooperation with the West reportedly may have been encouraged by Bilak's impressions of the Soviet leadership. A US Embassy source in Prague speculates that Bilak believes a regime led by General Secretary Chernenko would return to the conservatism of Brezhnev and Suslov and look favorably on his own hardline policies.

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Comment: East European hardliners do not appear to have gained the upper hand, except in Czechoslovakia where Bilak has regained the initiative he lost during Andropov's tenure.

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Poland's political amnesty and its decision to refrain from severely curbing Church activities suggest that hardliners there are not getting their way. Moreover, the influence of conservative elements in Hungary and Bulgaria even appears to be in decline. Proponents of a harder line are unlikely to increase their influence as long as moderates can point to benefits accruing from domestic reforms and cooperation with the West.

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WEST GERMANY: More Problems in the Coalition

Chancellor Kohl's governing coalition yesterday agreed on a series of environmental protection measures for a coal-fired power plant, thereby averting a crisis in the coalition.

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At the request of the opposition Social Democrats, the Bundestag—which last month unanimously opposed the opening of the plant before installation of sulfur dioxide filters—will meet in extraordinary session today to discuss the issue.

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The Free Democrats in the Cabinet opposed Interior Minister Zimmermann's decision to open the plant. In fact, before yesterday's meeting, Free Democratic Economics Minister Bangemann warned that a crisis was at hand and that coalitions had fallen over lesser issues.

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Comment: The Free Democrats, recognizing the importance of environmental issues with the public, clearly intensified this dispute in an effort to highlight their differences with the Christian Democrats. Kohl probably is prepared to tolerate some efforts by the Free Democrats aimed at improving their poor electoral prospects, but statements such as Bangemann's leave the impression of a weak government.

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The affair is likely to increase criticism of Kohl's leadership within his own party. Many members already are unhappy about the government's disregard for their views on opening the power plant as expressed in the Bundestag resolution and the perceived unreliability of the Free Democrats as a coalition partner.

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USSR-ETHIOPIA: Protecting the Soviet Investment

Recent Soviet financial concessions to Ethiopia reflect Moscow's efforts to reinforce already close ties at a time when its position in southern Africa is being challenged. [redacted]

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A US Embassy source in Addis Ababa reports that the USSR will allow Ethiopia to delay repayment on its debt for military equipment until April 1986. The Soviets reportedly have also agreed to provide aircraft—probably MIGs—to replace those destroyed in May by a rebel attack on the Asmara Airfield. These agreements probably were completed late this month during the visit of Marshal Petrov, the Chief of Soviet Ground Forces. [redacted]

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Comment: Despite the accords, Moscow and Addis Ababa still differ over longstanding issues, including strategy for resolving the Eritrean insurgency—which was reportedly discussed during the Petrov visit—and the composition of the new workers' party of Ethiopia to be unveiled in September. [redacted] the Soviets are unhappy that Mengistu's military clique will dominate the party.

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These differences, however, do not threaten the bilateral relationship and Moscow probably will continue efforts to improve ties with Ethiopia. Indeed, setbacks in Mozambique and the changing political and military situation in Angola make Ethiopia even more important to Moscow's position in Africa. [redacted]

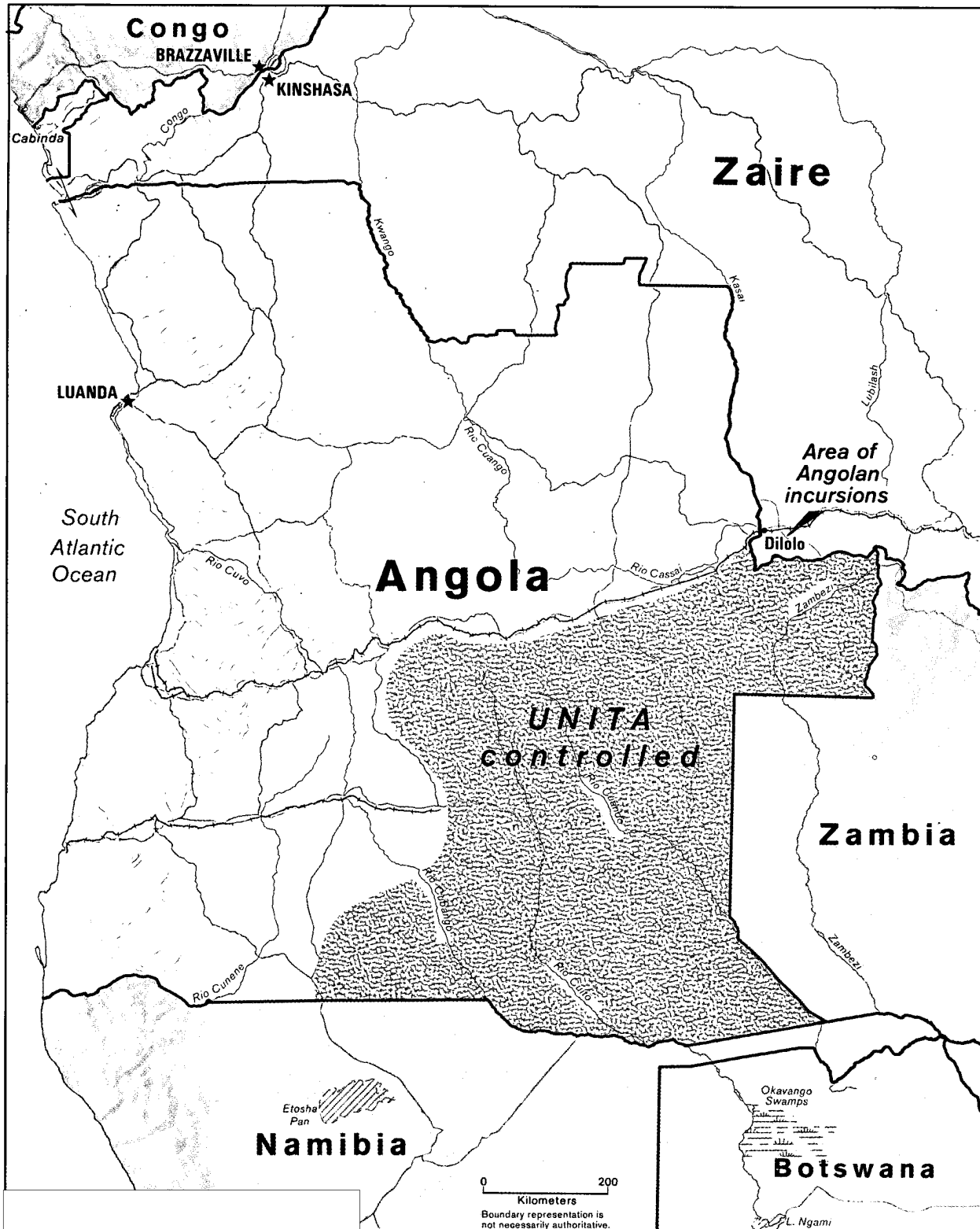
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ANGOLA-ZAIRE: Increasing Border Tensions

A close associate of Angolan President dos Santos told a senior US official last week of Luanda's growing concern about Zaire's support for the UNITA insurgents. [REDACTED]

Angolan troops and MIG aircraft have made several incursions into Zairian territory during the past month, and Zairian armed forces in the region have been ordered to engage the Angolans. [REDACTED]

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Comment: Angola's belief that Zaire has renewed aid to UNITA stems largely from the spread of the insurgency during the past several months into northeastern Angola. In addition, Luanda's suspicions have been heightened by Soviet disinformation efforts that link Zaire and UNITA to alleged US, South African, and Israeli efforts to undermine the regime. Zaire probably does not give direct military aid to UNITA, but it apparently has allowed the insurgents increased use of its territory. [REDACTED]

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USSR-US: Media Coverage of the Olympics

A TASS report on Saturday cited a "dangerous situation" in Los Angeles and reported an alleged terrorist incident in which unknown persons fired on a bus carrying Olympic athletes. As staged in America, TASS reported, the Games are "an obvious political spectacle in the worst traditions of Hollywood: cowboys, wagons, and barelegged girls." *Izvestiya* yesterday ridiculed the Games as little more than "a diluted Pan-American event." The Soviet media are giving little domestic coverage to the Games. [REDACTED]

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Comment: By playing up accidents and tragedies in Los Angeles, the Soviets are seeking to substantiate their claim that the US has failed to provide adequate security arrangements—the alleged reason for their boycott. The relative absence of domestic coverage of the Games may be intended to encourage Soviet citizens to look forward to the "Friendship '84 Olympics" next month in Moscow. Even though the Games in Los Angeles apparently are a barely visible event to the Soviet public, Moscow is still eager to denigrate US handling of the events. [REDACTED]

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INDIA-WEST GERMANY: Joint Helicopter Venture

India's Defense Minister reportedly has announced that New Delhi and West Germany will collaborate in designing, developing, and producing 200 advanced light helicopters with the first operationally deployed by the early 1990s. New Delhi will use the helicopters for a variety of missions, including armed reconnaissance, antisubmarine warfare, and antitank and transport duties. [REDACTED]

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Comment: India is finally moving ahead on a helicopter modernization program that was officially authorized in 1976 but hampered by various bureaucratic, design, and technical delays. New Delhi wants to replace the two types of single-engine helicopters it now manufactures, both designed by the French, with one that is more versatile and likely to survive combat. The agreement with Bonn reflects New Delhi's continued willingness to make selective purchases from the West, despite its dependence on the USSR for the bulk of its arms. [REDACTED]

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UK: Court Fines Welsh Miners

A British court's decision yesterday to impose a fine on Welsh miners may begin a series of legal initiatives by the government against striking coal miners. According to the press, the court has fined the Welsh union \$66,000 for illegally picketing a steelmill and has threatened to seize the union's entire assets unless it pays the fine by tomorrow. Arthur Scargill, head of the National Union of Mineworkers, reportedly has reaffirmed his intent not to cooperate with the courts. The government, meanwhile, has threatened to take Scargill to court if he fails to hold a nationwide strike ballot by September. The coal miners, who have been on strike since March, are protesting the government's decision to close 20 unproductive mines. [REDACTED]

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Comment: The decision is the first court action against the coal miners in their four-month-old strike, and Scargill may see it as the beginning of a general legal offensive by the government. Scargill, nevertheless, probably will refuse to abide by the court order and may seek help from the Trades Union Congress, which represents all British unions. The TUC has stayed neutral in the coal strike, however, and is unlikely to help him defy the law. [REDACTED]

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In Brief**Europe**

- **British** and **Chinese** pleased with progress on **Hong Kong's** future during Foreign Secretary Howe's Beijing visit . . . Deng Xiaoping, preeminent authority on Hong Kong matters, meets with Howe today.

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USSR

- **USSR** in last few days has purchased at least 1.5 million tons of US corn and 325,000 tons of wheat . . . purchases of US corn now meet 4-million-ton minimum commitment under long-term agreement . . . additional wheat purchases possible within the week.
- **USSR** has lowered price of crude oil sold to West by \$1.50 per barrel . . . puts price at \$27.50 in Rotterdam . . . first response by any important exporter to depressed spot prices . . . may trigger other price cuts.

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Special Analysis

SWITZERLAND- USSR:

Technology Transfer

Switzerland is one of the most important conduits for illegal trade in high technology. Its desire to maintain unimpeded access to US technology, however, has resulted in some encouraging, if modest, steps by Bern to cooperate on technology transfer issues. [REDACTED]

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Switzerland produces three key items controlled by COCOM: computer-controlled machine tools, semiconductor production equipment, and optical coating technology. Because Switzerland is not a COCOM member, the Warsaw Pact countries are able to circumvent COCOM controls by legally purchasing these items from the Swiss. [REDACTED]

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Firms based in Switzerland rank third behind firms in West Germany and Japan in the number of documented diversions of COCOM-controlled technology to the USSR and Eastern Europe. The majority of these illegal transfers involve computers, peripheral equipment, and semiconductor production equipment. [REDACTED]

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Swiss procedures governing controlled items imported into Switzerland probably are the most rigorous of any neutral European country. These procedures, however, have several weaknesses that are easily exploited by firms and individuals supplying the USSR and its East European allies with COCOM-controlled technology. [REDACTED]

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Technology Flows

Switzerland's strict laws on business confidentiality and its 23 privately operated, bonded free-trade ports make it a haven for diversion operations. The bonded free-trade ports in Geneva, Zurich, and Basel together may be the principal European conduit for moving illegally acquired technology to the Warsaw Pact countries. There are at least four major diversion networks operating out of Switzerland. [REDACTED]

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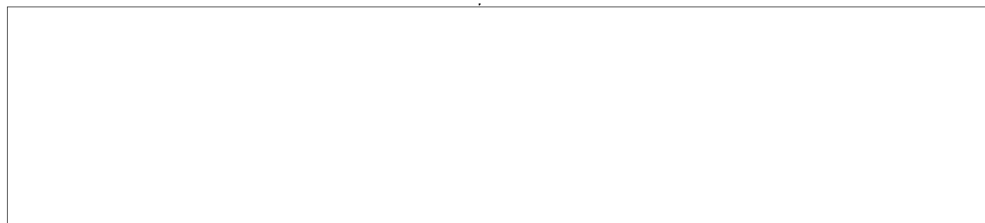
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Enforcement Measures

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In general, the Swiss have been diligent in protecting COCOM-controlled technology imported under the provisions of the Swiss Blue Import Certificates. Swiss export control procedures, however, have several major weaknesses. The most serious is that, because intransit goods do not officially enter the commerce of Switzerland, they do not require a certificate. The result is virtually unimpeded transit of a large volume of illegally acquired technology and equipment through Switzerland.

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Prospects

Over the past two years Swiss authorities have become more cooperative on technology transfer issues. Bern recognizes that its access to US technology could be impaired if it is considered an easy route to use in sending illegally acquired technology to the East.

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Bern believes that it is complying, within the limits set by Swiss law, with US desires to restrict Soviet access to controlled technology, and it resents the extraterritorial application of US export control regulations. Above all, the Swiss Government is concerned that the more restrictive procedures for US general distribution licenses and the new authority granted the Department of Defense to review license applications involving seven key high technology categories will seriously impede Swiss trade and commerce.

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Special Analysis

PHILIPPINES:

Impact of the National Assembly Election

The Daily today prints the Key Judgments of the Special National Intelligence Estimate entitled "The Philippines: Impact of the National Assembly Election." [redacted]

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The National Assembly election in May was a de facto defeat for the Marcoses, who have been struggling since the assassination of Benigno Aquino to preserve the illusion of popular support for their regime, and presents the President with three critical challenges in the next six months to a year. He must:

- Limit the opposition's effectiveness in the new Assembly. Marcos has a good chance of outmaneuvering his opponents on most policy issues, but he will have trouble preventing them from limiting his authoritarian powers.
- Maintain discipline within the ruling party. Marcos can no longer count on the unquestioning support of the ruling party—particularly on political reform issues.
- Begin to right a teetering economy by undertaking crucial austerity measures—which he has so far resisted. At the same time, the Assembly—with the support of labor, business, and consumer groups—could dilute the austerity measures prescribed by the IMF, thus threatening a cutoff of new financing. [redacted]

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In the absence of a precipitous decline in the economy, Marcos's short-term strategy probably will be to court and co-opt opposition figures where he can, while intimidating and discrediting those who defy him. These tactics will not be entirely successful, however, and Marcos probably will have to fight a series of rear-guard actions with his opponents that will leave him in a weaker position in the years ahead. [redacted]

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One result could be that Marcos will be unable to secure another term in office, although his chances of completing his present term are better than even. A less likely outcome would see Marcos resorting increasingly to heavyhanded tactics—such as a major crackdown on opposition leaders or the reimposition of martial law—as economic and political pressures mount. Further pressures would be generated if the Agrava Board—investigating the assassination of Aquino—clearly implicates the military in a coverup. Marcos almost certainly

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realizes that an attempt to reassert his former authority probably would not be tolerated by the public, and he is unlikely to take this step. [REDACTED]

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Marcos's unpopularity is unmistakable, but the durability of the moderate opposition's gains will not be known for many months and will not be tested again until the local elections in 1986 for mayors and governors. At present, his moderate opponents are divided into rival personality-based factions and will have difficulty agreeing on all but the anti-Marcos issues. Their ability to challenge Marcos on key issues will determine whether the left will be able to gain the initiative within the opposition movement. [REDACTED]

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In the event of Marcos's sudden death or incapacitation, a succession struggle is likely to occur within the ruling party. The election results, however, have further weakened the prospects for an alliance between Imelda Marcos and Armed Forces Chief of Staff Fabian Ver coming to power in the near term. [REDACTED]

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It is too soon to assess the prospects for a member of the opposition to succeed Marcos. The odds now favor the emergence of new political alignments—with support from the business community, untainted ruling party leaders, and the opposition—during the next few years. [REDACTED]

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Any successor government will have difficulty managing the economic and political problems that will accompany the transition from an import- to an export-oriented economy. Under the most optimistic assessment, economic growth will average less than 1 percent a year through 1987. A more precipitous decline in the economy could take place later this year if IMF negotiations collapse or in 1986 when another round of commercial debt rescheduling seems certain. [REDACTED]

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Economic problems and political uncertainty are likely to bolster prospects for the Communist Party of the Philippines, which leads the nationwide insurgency of roughly 13,000 to 15,000 guerrillas spread among 62 out of 72 provinces. The Armed Forces of the Philippines has yet to develop an effective counterinsurgency campaign and suffers from serious logistic problems and equipment shortages. [REDACTED]

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The setback Marcos suffered as a result of the election will complicate the government's ability to combat the insurgency. Nevertheless, it is doubtful that the insurgency will be in a position to overthrow the government by 1985, or even by the end of Marcos's term in office. If present trends continue, however, by 1987 the insurgents could have the capability among other things to conduct multibattalion-size operations, disrupt the national economy, and expand violence into the capital region. [REDACTED]

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